

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**NATIONAL TECHNICAL
INFORMATION SERVICE**

***Financial Statements
Fiscal Year 2004***

Audit Report No. FSD-16698-5-0001/November 2004

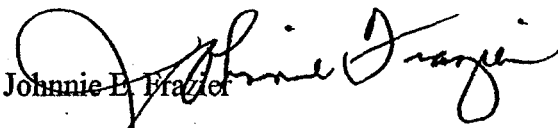
Office of Audits, Financial Statements and Accountability Division



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

NOV 8 2004

MEMORANDUM FOR: Benjamin H. Wu
Acting Director, National Technical Information Service

FROM: Johnnie E. Frazier 

SUBJECT: *NTIS' FY 2004 Financial Statements*
Audit Report No. FSD-16698-5-0001

I am pleased to provide you with the attached audit report, which presents an unqualified opinion on the National Technical Information Service's FY2004 financial statements. The audit results indicate that NTIS has established an internal control structure that facilitates the preparation of reliable financial and performance information. We commend NTIS for the noteworthy accomplishment of again attaining an unqualified opinion, and for meeting the fiscal year 2004 accelerated reporting deadline.

My office contracted with the independent public accounting firm of KPMG LLP (KPMG) to perform the audit of NTIS' financial statements as of and for the year ended September 30, 2004. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

In its audit of NTIS, KPMG found that:

- the financial statements were fairly presented, in all material respects, and in conformity with U.S. generally accepted accounting principles;
- there were no material weaknesses in internal control, as defined on page 2 of the audit report; and
- there were no instances in which NTIS' financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996, and no reportable noncompliance with other laws and regulations tested.

My office defined the audit's scope and oversaw its performance and delivery. We reviewed KPMG's report and related documentation, and made inquiries of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards. However, our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on NTIS' financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. KPMG is responsible for the attached audit report dated November 2, 2004, and the conclusions expressed in the report.

If you wish to discuss the contents of this report, please call me on (202) 482-4661, or Edward Blansitt, Deputy Inspector General, on (202) 482-3516. We appreciate the cooperation and courtesies NTIS extended to KPMG and my staff during the audit.

Attachment

cc: Phillip J. Bond
Under Secretary of Commerce for Technology
Technology Administration

Otto J. Wolff
Chief Financial Officer and Assistant Secretary for Administration
Department of Commerce

FINANCIAL REPORT
FISCAL YEAR 2004
For the Year Ended September 30, 2004

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Office of Inspector General, U.S. Department of Commerce
Acting Director, National Technical Information Service

We have audited the accompanying balance sheets of the National Technical Information Service (NTIS), a bureau within the U.S. Department of Commerce as of September 30, 2004 and 2003, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered the NTIS' internal control over financial reporting and tested the NTIS' compliance with certain contracts that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the NTIS' financial statements as of and for the years ended September 30, 2004 and 2003, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the NTIS' financial statements, our consideration of the NTIS' internal control over financial reporting, our tests of the NTIS' compliance with certain provisions of applicable laws, regulations and contracts, and management's and our responsibilities.



OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the National Technical Information Service as of September 30, 2004 and 2003, and the related statements of net cost, changes in net position, budgetary resources and financing for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NTIS as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

However, we noted other matters involving internal control over financial reporting and its operation that we will report to the management of NTIS in a separate letter.

COMPLIANCE AND OTHER MATTERS

The results of our tests of compliance with certain provisions of laws, regulations and contracts described in the Responsibilities section of this report, exclusive of those referred to in *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed no instances in which the NTIS' financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.



RESPONSIBILITIES

Management's Responsibilities. The *Government Management Reform Act of 1994* (GMRA) requires each Chief Financial Officer (CFO) Act agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. GMRA also authorizes the Office of Management and Budget to identify additional agencies to prepare financial statements. To meet the GMRA reporting requirements, the NTIS prepares annual financial statements.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal control over financial reporting, and preparing the Management Discussion and Analysis (including the performance measures), and Required Supplementary Information, and
- Complying with laws, regulations and contracts, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2004 and 2003 financial statements of the NTIS based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2004 audit, we considered the NTIS' internal control over financial reporting by obtaining an understanding of the NTIS' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.



As required by OMB Bulletin No. 01-02 with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the NTIS' fiscal year 2004 financial statements are free of material misstatement, we performed tests of the NTIS's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the NTIS. Providing an opinion on compliance with laws, regulations and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No 01-02 and FFMIA, we are required to report whether the NTIS's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended for the information and use of NTIS' management, the U.S. Department of Commerce's Office of the Inspector General, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 2, 2004

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

1. NATIONAL TECHNICAL INFORMATION SERVICE (NTIS) MISSION

NTIS traces its history to the Publications Board, a World War II agency created by President Truman to collect classified scientific and technical information performed by or for the Government in support of the war effort and to review it for release to the public. The Board's role was later expanded to include the review and release of captured enemy research as well. The Secretary of the Department of Commerce (Department) continued to perform this function in the postwar period as part of the Commerce Department's overall mission to promote foreign and domestic commerce. Congress formalized this role in 1950 by directing the Secretary to establish a clearinghouse for the collection and dissemination of scientific and technical information "from whatever sources, foreign and domestic, that may be available" and to make "the results of technological research and development readily available to industry and business, and to the general public." The National Technical Information Service, in its current form, was established within the Department in 1970. NTIS is now part of the Technology Administration and reports to the Department's Under Secretary for Technology, whose overarching mission is to promote U.S. industrial productivity, technology and innovation.

The Department's Strategic Plan for Fiscal Years 2004 – 2009 states that one of its principal objectives during this period will be to "develop tools and capabilities that improve the productivity, quality, dissemination and efficiency of research." The Department has recognized NTIS' role in meeting this objective, noting that "NTIS continues to meet the challenge of permanent preservation and ready access to the taxpayers' investment in research and development through the acquisition, organization, and preservation of the titles added annually to the permanent collection" and by "providing technologically advanced global E-Commerce channels for dissemination of specialized information to business, industry, government and the public." The Department will be looking to NTIS to enhance public access to the information in its collection and will measure its performance by looking at the number of items added to its collection, the number of information products disseminated and customer satisfaction. Performance measures are described in Section IV.5.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

2. NTIS AUTHORITIES AND OPERATIONS

AUTHORITIES

NTIS' basic authority to operate a permanent clearinghouse of scientific and technical information is codified as chapter 23 of Title 15 of the United States Code (15 U.S.C. 1151-1157). This chapter also established NTIS' authority to charge fees for its products and services and to recover all costs through such fees "to the extent feasible." This authority was restated in the National Technical Information Act of 1988, codified at 15 U.S.C. 3704b. That Act gave NTIS the authority to enter into joint ventures and declared the Clearinghouse to be a permanent Federal function that could not be eliminated or privatized without Congressional approval. That Act was amended by the American Technology Preeminence Act of 1992 (Public Law 102-245) which (1) required all costs associated with bibliographic control to be recovered by fees, (2) required agencies to make copies of their scientific and technical reports available to NTIS, and (3) directed NTIS to focus on developing new electronic methods and media for disseminating information.

Other statutes having a profound impact on NTIS include (1) the 1988 amendments to the Stevenson-Wydler Technology Innovation Act, which established a Technology Administration in the Department of Commerce and made NTIS one of its constituent elements, and (2) the Commerce, Justice, State Appropriations Act for FY 1993 (Public Law 102-395) which established NTIS' Revolving Fund and gave it the authority to use that Fund without further approval by Congress. In addition, section 1526 of Title 15 of the United States Code authorizes NTIS to accept payments in advance for services to be provided to other agencies.

OPERATIONS

NTIS is located in Springfield, Virginia. Its operations all pertain to information dissemination and are all reported within the "Clearinghouse Program." Detailed descriptions of activities follow:

Clearinghouse Program

The Clearinghouse program generally describes the various activities that NTIS undertakes to disseminate information from its own collection of approximately three million titles or dissemination services provided for other agencies.

Revenue is generated through the dissemination of information from the NTIS collection. This includes sales of individual technical reports, computer products, standing orders for particular reports as they are issued, paper and electronic subscription products, and revenue derived from leasing the NTIS Bibliographic Database. This information generally consists of scientific and technical research produced by Federal agencies or their contractors and grantees and complementary information produced by foreign governments. Under a 1954 Comptroller General opinion, scientific and technical information has been deemed to include economic, statistical and other business-related information.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

2. NTIS AUTHORITIES AND OPERATIONS, Continued

OPERATIONS, Continued

Clearinghouse Program, continued

Traditionally, customers learned of NTIS' various products through media announcements, exhibits, and searching the NTIS Bibliographic Database. They could access the Database by subscribing to services of information vendors who would lease the NTIS Database for the purpose of making it available to customers. As a result, the only persons who had practical access to the Database were those who worked for research institutions of the type that would typically subscribe to an information vendor's services. To broaden its exposure NTIS formally launched a new web site during FY 2002 offering users access to the post-1990 portion of the NTIS Database and the opportunity to download documents for free or at a nominal charge if NTIS has the document in electronic image.

In addition to direct sales from its own collection, NTIS also provides a variety of dissemination services for other agencies, many of which lack the specialized resources needed to produce and disseminate their information products or to process payments for these products on a large scale. The systems, equipment, financial structure and specialized staff skills that NTIS maintains to provide Clearinghouse products allow NTIS to offer similar services to other agencies.

In order to support its own information dissemination requirements, NTIS has developed a highly sophisticated platform and suite of related services that permits agencies to use the World Wide Web effectively for communicating or conducting transactions with their employees, constituencies, or the general public. The platform is particularly useful for agencies that need to conduct a high volume of transactions in a secure environment. This generally involves the provision of a platform, but the agencies determine and control the content and disseminate it themselves.

Other Reported Items

Other Reported Items consists of imputed financing related to NTIS' share of the cost to the Federal government for providing pension and post-retirement health and life insurance benefits to all eligible NTIS employees.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

3. NTIS ORGANIZATION

NTIS includes six major organizations as shown on the organization chart that follows. The organizations are described in detail below. The position data is as of September 30, 2004.

Office of the Director (4 Positions):

The Director's Office provides senior-level direction for all NTIS operations. This office coordinates strategic planning activities, manages NTIS' public affairs and Congressional relations programs, serves as liaison to the Under Secretary for Technology and other senior Department officials, and coordinates the review of all agreements to provide services to other federal agencies for consistency with NTIS' mission.

Office of the Chief Information Officer (CIO) (29 Positions):

The CIO is responsible for developing and administering plans, policies and standards for acquiring and using information technology. The office also provides information and technology support services to other NTIS offices and provides web hosting and information management services to other federal agencies. The office is also responsible for agency security.

Office of the Chief Financial Officer (CFO) (17 Positions):

The CFO is responsible for managing all financial and administrative activities. Financial activities include developing and analyzing NTIS' budgets and financial plans, managing its accounting system, providing financial services to NTIS offices and clients, and coordinating NTIS financial activities with the Department's CFO and the Office of Management and Budget. Administrative services include personnel, procurement, and real property management.

Associate Director for Business Development (26 Positions):

This office is responsible for identifying and acquiring scientific, technical, engineering and business-related information from domestic and foreign sources, for developing programs aimed at increasing the sale of NTIS products to the public, and for identifying and negotiating information dissemination services to other agencies.

Associate Director for Customer Services (29 Positions):

This office provides direction and oversight of NTIS customer-contact functions including order receipt, order entry, complaint resolution, Freedom of Information Act (FOIA) and Congressional requests, and general information requests for all NTIS products.

Associate Director for Production Services (61 Positions):

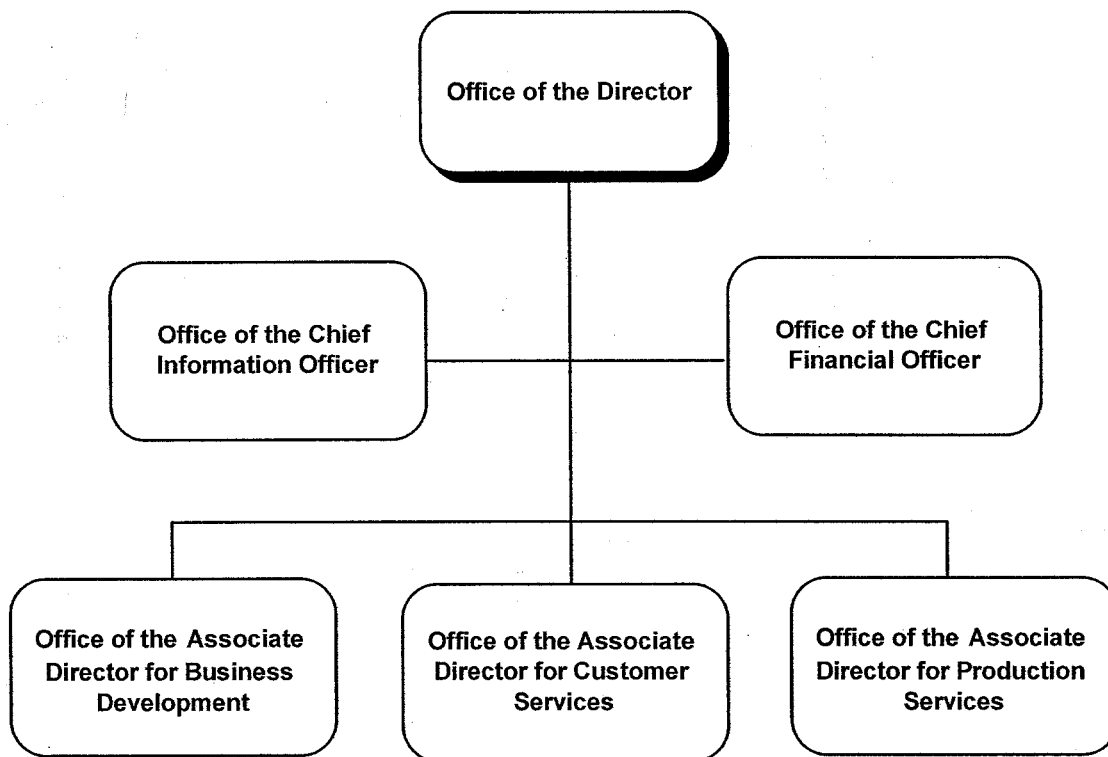
This office is responsible for managing all cataloging, indexing and abstracting activities associated with developing the NTIS Bibliographic Database and providing bibliographic research services. In addition, the office is responsible for managing all order fulfillment operations. These include product warehousing, inventory control and distribution, and imaging and reproducing material disseminated by NTIS either from its own collection or pursuant to service agreements with other federal agencies.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

U.S. Department of Commerce National Technical Information Service



II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

4. ANALYSIS OF FY 2004 RESULTS

As Chart #1 shows, NTIS' cumulative increase in net position from Clearinghouse Program operations for the previous three-year period is \$1.9 million

<u>Historical Comparison</u>				Chart #1
(\$ In Thousands)				
<u>Year</u>	<u>Revenue</u>	<u>Cost</u>	<u>Increase in Net Position</u>	
2002	\$30,573	\$29,227	\$1,346	
2003	28,321	28,311	10	
2004	26,333	25,825	<u>508</u>	
Cumulative Increase			\$1,864	

The data shown in Chart #1 excludes imputed financing sources reported as "Other Reported Items" on the Statement of Changes in Net Position.

A detailed analysis of the Clearinghouse Program begins on the following page.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

4. ANALYSIS OF FY 2004 RESULTS, Continued

During FY 2004, NTIS worked to develop new product offerings and business opportunities and to control spending. As a result, NTIS ended FY 2004 with a positive net income of over \$.5 million. This improved net income was realized despite the fact that revenue declined 7%. This decline is primarily due to decreased demand for traditional paper and microfiche products as customers opt to obtain information electronically. Costs for FY 2004 were 9% less as NTIS continues to control expenses and work more efficiently.

NTIS has adjusted well to the growing demand for electronic access to information. Its efficient product distribution infrastructures and innovative secure web hosting systems have allowed NTIS to provide new product offerings serving its own customer base and assisting other government agencies to efficiently and economically fulfill a variety of information dissemination requirements. FY 2004 highlights include:

○ E-Learning Services for Federal Agencies

In FY 2004, NTIS and the Office of Personnel Management (OPM) signed a memorandum of understanding which recognized NTIS as an approved provider of E-Learning services to federal agencies. In the past, NTIS had provided the secure platform needed to host a very sophisticated learning management system that had been developed for the Defense Acquisition University (DAU) to train its worldwide procurement force. DAU encouraged NTIS to find a way to let other agencies benefit from its investment. Now NTIS, working with a partner, is able to make this same learning management system and infrastructure available to any agency for almost any kind of training – and in an environment that assures that learning content and student records will be protected. In short, the actions of NTIS, DAU and OPM are a perfect example of the “cross-agency teamwork” that President Bush has called for as the hallmark of his Administration’s E-Government strategy. This new offering was in development in FY 2004 and will be fully operational in FY 2005.

○ S&T (Science & Technology) on CD

S&T on CD is a tailored information service that delivers full-text digital copies of government publications based on customer needs, automatically, within a few weeks of announcement by NTIS. S&T on CD is the CD-ROM version of SRIM (Selective Research in Microfiche) service with the advantage of making oversized and color documents available for sale in the SRIM product line.

○ Wage Determinations Online (WDOL) Program

NTIS hosts, operates and maintains the Wage Determinations Online Program website (WDOL.gov) – a single website for access to federal contract labor standards information and for wage determinations issued under the McNamara-O’Hara Service Contract Act and the Davis-Bacon Act. The new WDOL.gov program is located at <http://www.wdol.gov> and provides the federal contracting agencies and the general public ready access to wage determinations required on most federally funded construction contracts, and on most federal service contracts. WDOL.gov is part of the Integrated Acquisition Environment, one of the E-Government initiatives in the President’s Management Agenda. It is a collaborative effort of the Office of Management and Budget, Department of Labor, Department of Defense, General Services Administration, Department of Energy, and Department of Commerce.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

4. ANALYSIS OF FY 2004 RESULTS, Continued

○ The World News Connection (WNC)

The World News Connection is a compilation of news and information from around the world selected and translated by the Foreign Broadcast Information Service. For more than 30 years NTIS has distributed this valuable information to the public, first in hardcopy and beginning in 1995, online. In December 2003, NTIS entered into a joint venture agreement with the Dialog Corporation to increase the dissemination and use of WNC and to improve usability by moving to the next level of search capability. The file was launched on the Dialog system in May 2003 and revenues have shown a steady increase during FY 2004.

○ Social Security Administration (SSA) Death Master File

NTIS launched the official online version of the SSA's Death Master File, thereby making it much easier for users to verify identity and combat identity fraud. The file is a major tool that lenders, businesses, and law enforcement personnel can use to determine if someone is assuming the identity of a deceased person. It is used regularly by pension funds, insurance companies, and government agencies who want to make sure they are not making erroneous payments; by medical researchers and hospitals that need to track former study subjects or patients; by private investigators; and by professional and amateur genealogists. Thanks to the new online service, users can get the information they need faster than ever before and in an easily searchable format without the need for an in-house staff to maintain and update the large database of deaths reported to the SSA. NTIS was able to provide this new subscription service through a joint venture with a private sector firm without the need for appropriations.

○ Agency Service Distributions

NTIS' distribution infrastructure provides other government agencies an efficient means of distributing mass quantities of information products to their customers. In FY 2004, NTIS distributed 11.4 million pieces of free nutrition educational materials to state agencies, schools and childcare facilities for the U.S. Department of Agriculture (USDA). In addition, the Centers for Medicare and Medicaid Services (CMS) requested that NTIS assist them to assemble, package and ship informational books produced by CMS in support of a White House initiative. During FY 2004, 10.5 million books were assembled creating 642,000 full sets (of 13 books) and 360,000 half sets (of 6 books). Over 4.1 million items (including both sets and individual books) were distributed to CMS customers during FY 2004.

○ Successful Launch of New Web Download Service

The Drug Enforcement Administration, as part of its efforts to control the abuse and misuse of controlled substances and chemicals used in producing some over-the-counter drugs, maintains databases of individuals registered to handle these substances. NTIS now makes these databases available in raw data format as downloadable files from the NTIS Web site. The downloadable files make the updating of the files more timely and reduce cost for production, shipping and labor. NTIS also makes these databases available as searchable applications on the Web and on CD-ROM and magnetic tape.

○ Successful Video Streaming Launch

NTIS successfully launched the National Audiovisual Center (NAC) Screening Room in April 2004 on its homepage www.ntis.gov. The NAC Screening Room showcases various video clips from its federally produced multimedia program.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

5. PERFORMANCE MEASURES

NTIS' mission is to make the results of technological research and development more readily available to industry and business and to the general public. To accomplish this mission there are three basic functions that must take place: (1) acquisition of the products to be made available, (2) dissemination of those products, and (3) measurement of resulting customer satisfaction. These three components are measured as follows:

- **Acquisitions – Number of New Items Available**

<u>Year</u>	<u>Target</u>	<u>Actual</u>	<u>Comment</u>
FY 2002	510,000	514,129	Met
FY 2003	520,000	530,910	Met
FY 2004	525,000	553,235	Met

This measures the number of new information items available from NTIS (annually). It represents the number of scientific, technical and engineering information products made available to the public.

- **Dissemination – Number of Information Products Disseminated**

<u>Year</u>	<u>Target</u>	<u>Actual</u>	<u>Comment</u>
FY 2002	16,000,000	16,074,862	Met
FY 2003	17,000,000	29,134,050	Met
FY 2004	18,000,000	25,476,424	Met

This measure represents information disseminated and includes compact discs, diskettes, tapes, online subscriptions, web site pages, as well as the traditional paper and microfiche products. The shift in information dissemination has improved NTIS' ability to provide quality products, to increase the number of products distributed and expand the number of customers that have access to valuable scientific and technical information. As these measures indicate, NTIS continues to enhance its ability to stay current in the E-Commerce environment, while continuing to serve customers that require the more traditional distribution methods.

- **Customer Satisfaction**

<u>Year</u>	<u>Target</u>	<u>Actual</u>	<u>Comment</u>
FY 2002	97%	98%	Not Met
FY 2003	98%	97%	Not Met
FY 2004	98%	96%	Not Met

This measures the percent of satisfied customer orders. It is derived from the number of customer complaints compared to the number of orders taken. This statistic is representative of NTIS' commitment to quality customer service and satisfaction. The FY 2004 percentage was slightly less than FY 2003 due to an abnormally high number of non-receipt complaints resulting from problems with a shipper and an internet order processing system malfunction which has been corrected.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

6. FY 2005 GOALS

NTIS' goals for FY 2005 will be to:

- Maintain a vigorous and proactive outreach and web-harvesting program to increase the permanent availability of valuable federal research
- Optimize the use of NTIS' web site and other marketing tools to attract new customers.
- Seek opportunities to assist federal agencies with information warehousing and dissemination services to meet the needs of their constituents in a more efficient and economical manner.
- Expand electronic subscription services and web-based communication services, such as E-Learning, preferably in conjunction with a joint venture partner.

NTIS' financial plan for FY 2005 is summarized in Chart #2. Detailed information is shown on the following page in Chart #3.

Chart #2			
<u>FY 2005 Financial Plan</u>			
(\$ In Thousands)			
	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>
2005	\$33,624	\$33,201	\$423

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

Chart #3

Fiscal Year 2004

For the Year Ended September 30, 2004

(\$ in thousands)

6. FY 2005 Goals

FY 2005 Revenue, Cost and Net by Product Grouping

	Year ended		
	September 30, 2005		
	<u>Revenue</u>	<u>Cost</u>	<u>Income/ (Loss)</u>
<u>Clearinghouse Program</u>			
Announcement Products	\$900	\$3,474	(\$2,574)
Full Text Reports	3,236	3,940	(704)
Computer Products	3,905	4,070	(165)
Standing Order Products	1,006	1,008	(2)
Paper Subscriptions	372	789	(417)
Electronic Subscriptions	3,781	2,163	1,618
Miscellaneous Products	2,478	2,182	296
Clearinghouse Services	<u>16,746</u>	<u>14,375</u>	<u>2,371</u>
Subtotal Clearinghouse Program:	\$32,424	\$32,001	\$423
<u>Other Reported Items</u>			
Other Reported Items	<u>\$1,200</u>	<u>\$1,200</u>	<u>\$0</u>
Total NTIS:	\$33,624	\$33,201	\$423

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

7. ADDITIONAL INFORMATION

SYSTEMS CONTROLS AND LEGAL COMPLIANCE:

NTIS' systems support its mission, which is to operate a central point of access within the U.S. government for technical information of all kinds that may be useful to American business and industry. In accordance with the Federal Financial Management Improvement Act (FFMIA) of 1996, NTIS is using the Standard General Ledger and has complied with Federal accounting standards and all applicable law and regulations. All systems provide effective interfaces and allow adequate reconciliation and reliable audit trails.

CURRENT TRENDS AND EFFECTS:

Current trends present challenges as well as opportunities for NTIS. According to the National Science Board's "Science and Engineering Indicators 2004," there are some trends that could enhance the market for Federal R&D. Business investment in R&D boomed in the 1990's but slowed almost entirely by 2002, due to turbulence in financial markets and terrorism. At the same time, the Board found the Federal Government's role grew in terms of R&D funding as well as performance, reversing the decade-long divergence whereby private R&D spending outpaced the Federal share. Simultaneously, firms are more receptive to external technology sources. Thus, there are some signs that industry may increasingly view NTIS as a source for its research needs.

However, this is by no means certain. For one thing, the Board found that recent acts of terrorism have led to a significant increase in defense-related R&D. In addition, Federal R&D has shifted markedly toward the life sciences, which tends to result in R&D published in copyrighted peer reviewed journals not available through NTIS. Finally, R&D is increasingly being undertaken in service (versus manufacturing) industries and these are not NTIS' traditional customers.

Accordingly, we continue to believe that NTIS must (a) maintain a vigorous and proactive outreach and web-harvesting program to ensure that valuable research continues to be added to the collection, (b) continuously monitor how well its web site and other marketing tools are working and bringing in new customers, and (c) seek new opportunities to provide its Federal clients with information dissemination services that enable them to meet the needs of their own constituents.

Finally, Federal agencies remain under severe budgetary restraints and will likely continue to be so for the foreseeable future. This will affect their research and publication budgets that in turn will affect what NTIS can add to its collection. They will also be under pressure to outsource many of the functions they formerly performed in-house. Such developments may present opportunities for NTIS to enhance its revenues by offering warehousing and distribution services that agencies no longer wish to perform in-house, or to offer web-based communication services, such as E-Learning enhancements, preferably in conjunction with a joint venture partner.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

7. ADDITIONAL INFORMATION

OTHER:

Section 3704b(d) of Title 15 of the United States Code requires the preparation of this annual audited financial report. In addition, Section 1(9) of Public Law 107-74 reinstated a requirement for an additional annual report that had been contained in former section 3704b(f)(3) but which has been eliminated by Section 3003(a)(1) of the Federal Reports Elimination and Sunset Act of 1995. The reinstated report was required to include the results of its most recent independent audit as well as certain additional information, which is included in this section so that the audited financial report may be used to meet the requirements of both sections.

- Summary of the Operations of the Service: see section IV.2.
- Modernization Progress: NTIS has incorporated computer technology into every aspect of its operations, is scanning all new acquisitions into electronic image for permanent storage, and is taking full advantage of the World Wide Web as a means of advertising and delivering technical reports.
- Long -Term Modernization: In FY 2004, NTIS made much-needed improvements to its order-processing system and continues to monitor the infrastructure to identify needed upgrades and improvements.

In response to the events of September 11, 2001, all Federal agencies were required to develop Continuity of Operations Plans (COOPs) outlining how they will perform their essential functions in an emergency. The Director approved NTIS' plan in February 2002. The NTIS COOP is not intended to describe how NTIS will conduct normal operations if the Sills Building is damaged or is otherwise unavailable. Rather, the basic theory is to make sure that NTIS' basic building blocks are saved so that the organization can be reassembled at a future time as resources become available. This means making sure that NTIS saves its disaster file and Bibliographic Database, its IT systems, and its ability to interact with customers and take orders for future delivery. It was submitted to the Department and is tested periodically. NTIS performed two successful tests during FY 2004, in May and August.

Finally, Section 3704b-2(b) of Title 15 required the Secretary to include, as part of the annual report that was subsequently repealed and then reinstated, information on efforts to secure compliance with requirements that Federal agencies submit copies of their technical information products to NTIS. That provision has proven difficult to enforce now that many Federal agencies put their information products directly on their web sites. It is difficult to work out arrangements with agencies, because information dissemination is very decentralized in today's environment. However, NTIS maintains an active program for monitoring agency web sites and harvesting appropriate documents that were not sent to us electronically. NTIS expects to submit a proposal to the Department to strengthen the implementing regulation in 2005.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2004

For the Year Ended September 30, 2004

8. LIMITATIONS OF FINANCIAL STATEMENTS

The financial statements that follow have been prepared to report the financial position and results of operations of NTIS, pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515(b)).

While the statements have been prepared from the books and records of NTIS in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated unless NTIS earnings are sufficient or without the enactment of an appropriation.

National Technical Information Service
BALANCE SHEETS
As of September 30, 2004 and 2003
(\$ in Thousands)

	<u>FY2004</u>	<u>FY2003</u>
ASSETS		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 31,696	\$ 38,350
Accounts Receivable, Net (Note 4)	305	74
Advances and Prepayments (Note 5)	<u>361</u>	<u>378</u>
Total Intragovernmental Assets	32,362	38,801
Cash And Other Monetary Assets (Note 3)	33	58
Accounts Receivable, Net (Note 4)	603	681
Inventory and Related Property, Net (Note 7)	248	267
General Property, Plant and Equipment, Net (Note 8)	217	405
Advances and Prepayments (Note 5)	86	47
Database (Note 6)	<u>5,451</u>	<u>5,865</u>
Total Assets	<u>\$ 39,000</u>	<u>\$ 46,125</u>
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable (Note 9)	\$ 4,320	\$ 5,838
Liability for Customer Deposits	10,376	15,788
Other Intragovernmental Liabilities	<u>153</u>	<u>112</u>
Total Intragovernmental Liabilities	14,849	21,738
Accounts Payable (Note 9)	1,466	1,621
Accrued Payroll and Annual Leave	1,285	1,257
Actuarial FECA Liability	550	612
Unearned Revenue	4	7
Liability for Customer Deposits	<u>5,243</u>	<u>5,794</u>
Total Liabilities	<u>\$ 23,397</u>	<u>\$ 31,030</u>
Commitments and Contingencies (Note 10)		
NET POSITION		
Cumulative Results of Operations	<u>\$ 15,603</u>	<u>\$ 15,095</u>
Total Net Position	<u>\$ 15,603</u>	<u>\$ 15,095</u>
Total Liabilities and Net Position	<u>\$ 39,000</u>	<u>\$ 46,125</u>

The accompanying notes are an integral part of these statements.

National Technical Information Service
STATEMENTS OF NET COST
For the Years Ended September 30, 2004 and 2003
(\$ in Thousands)

	<u>FY2004</u>	<u>FY2003</u>
Collect and Disseminate Technical Information		
Clearinghouse Program		
Intragovernmental	\$ 6,755	6,341
With The Public	<u>20,253</u>	<u>22,952</u>
Total	27,008	29,293
Less: Earned Revenues	<u>26,333</u>	<u>28,321</u>
NET COST OF OPERATIONS	<u>\$ 675</u>	<u>\$ 972</u>

The accompanying notes are an integral part of these statements.

National Technical Information Service
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2004 and 2003
(\$ in Thousands)

	<u>FY2004</u>	<u>FY2003</u>
Net Position-Beginning of Year	\$15,095	\$15,085
Financing Sources (Other Than Exchange Revenues):		
Imputed Financing (Note 1)	<u>1,183</u>	<u>982</u>
Total Financing Sources	1,183	982
Net Cost of Operations	<u>675</u>	<u>972</u>
Net Position-End of Year	<u>\$ 15,603</u>	<u>\$ 15,095</u>

The accompanying notes are an integral part of these statements.

National Technical Information Service
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2004 and 2003
(\$ in Thousands)

Budgetary Resources:	<u>FY2004</u>	<u>FY2003</u>
Unobligated Balance:		
Brought Forward, October 1	\$ 9,695	\$ 9,766
Spending Authority from Offsetting Collections (Gross)		
Earned:		
Collected	20,236	27,605
Receivable from Federal Sources	232	(151)
Total Budgetary Resources	<u>\$ 30,163</u>	<u>\$ 37,220</u>
 Status of Budgetary Resources:		
Obligations Incurred:		
Reimbursable	\$ 19,172	\$ 27,525
Unobligated Balances -Available	10,991	9,695
Total Status of Budgetary Resources	<u>\$ 30,163</u>	<u>\$ 37,220</u>
 Relationship of Obligations to Outlays		
Obligated Balance, Net as of October 1	\$ 28,655	\$ 29,374
Obligated Balance, Net - End of Period		
Accounts Receivable	(305)	(74)
Undelivered Orders	13,236	19,288
Accounts Payable	7,774	9,441
Obligated Balance, Net - End of Period	<u>\$ 20,705</u>	<u>\$ 28,655</u>
 Outlays:		
Disbursements	26,890	28,395
Collections	(20,236)	(27,605)
Total Net Outlays	<u>\$ 6,654</u>	<u>\$ 790</u>

The accompanying notes are an integral part of these statements.

National Technical Information Service
STATEMENTS OF FINANCING
For the Years Ended September 30, 2004 and 2003
(\$ in Thousands)

Resources Used to Finance Activities

Budgetary Resources Obligated	<u>FY2004</u>	<u>FY2003</u>
Obligations Incurred	\$ 19,172	\$ 27,525
Less: Spending Authority for Offsetting Collections and Adjustments	(20,469)	(27,454)
Change in AR Non-Governmental	83	(23)
Write-offs	(8)	(17)
Change in Undeposited Collections	25	(27)
Change in Customer Deposit Accounts	(5,963)	(782)
Financing Imputed for Cost Subsidies	<u>1,183</u>	<u>982</u>
Total Resources used to Finance Activities	\$ (5,977)	\$ 204

**Resources Used to Finance Items not Part of the
Net Cost of Operations**

Change in Amount of Goods, Services, and Benefits Ordered But Not Yet Received or Provided	\$ 6,028	\$ 622
Inventory Purchases	(1,712)	(2,176)
Changes in Supplies/Equipment	(85)	(245)
Data Base Capitalization	<u>(2,129)</u>	<u>(2,626)</u>
Total Resources Used to Finance Items not Part of the Net Cost of Operations	\$ 2,102	\$ (4,425)

Total Resources Used to Finance the Net Cost of Operations	\$ (3,875)	\$ (4,221)
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**Components of Net Cost of Operations that will not
Require or Generate Resources**

Components Not Requiring or Generating Resources

Costs of Goods Sold	\$ 1,641	\$ 2,165
Depreciation and Amortization Expense	2,816	2,918
Increase in Obsolescence	90	110
Bad Debt Expense	<u>3</u>	<u>1</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 4,550	\$ 5,193

Net Cost of Operations	<u>\$ 675</u>	<u>\$ 972</u>
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The accompanying notes are an integral part of these statements.

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

NOTE 1. Summary of Significant Accounting Policies

Reporting Entity

The National Technical Information Service (NTIS) was established in 1945 by Executive Order 9568 of the Publications Board to collect and declassify World War II technical data for dissemination to industry. NTIS operates under the provisions of Title 15, U.S. Code (1151-1157) and the NTIS Act of 1988 (15 U.S.C. 3701) as an agency of the U.S. Department of Commerce (The Department). Its mission is to collect, process, market, and disseminate government-sponsored and foreign scientific, technical and business information; license federally owned patents and transfer other specialized technologies to enhance the U.S. economy; and assist other agencies with their information programs. NTIS funds its operations through the sale of its products and services, rather than through direct appropriations. Occasional appropriation support may be required for a substantial one-time outlay for Congressionally mandated new programs and requirements.

On October 6, 1992, legislation was passed authorizing the establishment of the NTIS Revolving Fund. Upon establishing the NTIS Revolving Fund, all receipts from the sale of products and services are deposited in this fund and all expenses, including capital expenditures, are paid from it.

The accompanying financial statements present the financial position and financial activities of the NTIS Revolving Fund administered by NTIS. There were no intra-entity transactions and therefore no separate column is presented on the face of the financial statements.

Basis of Presentation

Under the authority of the Chief Financial Officers (CFO) Act of 1990, the Government Accountability Office (GAO) participated with the Office of Management and Budget (OMB) and the Department of the Treasury in the establishment of the Federal Accounting Standards Advisory Board (FASAB). FASAB's purpose is to consider and recommend accounting principles, standards, and requirements to GAO, Treasury, and OMB. The Comptroller General, the Secretary of the Treasury, and the Director of OMB (the three principals of FASAB) decide upon new principles, standards, and requirements after considering FASAB's recommendation.

Basis of Accounting

The financial statements of NTIS have been prepared from its accounting records in conformity with accounting principles generally accepted in the United States of America (GAAP) and the form and content for entity financial statements as specified in OMB Bulletin No. 01-09. GAAP for Federal agencies are standards prescribed by FASAB which has been designated the official accounting standards setting body for the Federal government by the American Institute of Certified Public Accountants.

Budgets and Budgetary Accounting

OMB annually apportions expenditure authority to NTIS based upon NTIS' estimate of sales of products and services. Typically, the Department of Commerce's (DoC) annual budget includes NTIS for informational purposes and Congressional oversight. Unobligated funds may be carried over into the next fiscal year.

Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, without regard to receipt or payment of cash, and expenses are recognized when goods or services are rendered. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

continued

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

Revenues and Other Financing Sources

Operating revenues result from sales of scientific and technical products and services to business, government, and educational institutions. Additional amounts are obtained through reimbursements for services performed for other federal agencies. Revenues are earned as goods or services are delivered or contract terms are met.

Fund Balance with Treasury and Cash on Hand

NTIS does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. Except as restricted (Note 2), the Fund Balances with Treasury and Cash on Hand are funds that are available to pay current liabilities and finance authorized purchase commitments. Cash balances held outside the U.S. Treasury are for change-making purposes and are not material.

Inventories

Inventories consist primarily of technical documents held for sale to customers. Inventories held for sale are stated at the lower of cost or market. Cost is determined principally using the first-in, first-out (FIFO) method; recorded values are adjusted to reflect the results of physical inventories; and a periodic allowance for obsolescence is expensed. See Note 6 for inventory composition. Expenses are recorded when the inventories are shipped or consumed.

Accounts Receivable

Accounts receivable result from the sale of NTIS products and services to the public and federal agencies. NTIS calculates its allowance for doubtful accounts based on historical collection data and, in some cases, specific account analysis. See Note 4.

Property and Equipment

Property and equipment consist of machinery and equipment, which are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. NTIS capitalizes equipment valued in excess of \$25 thousand with a useful life of two years or more.

Database

Other assets include the NTIS bibliographic database. The database is the result of NTIS' acquisition and processing of scientific and technical information products. Processing includes cataloguing, indexing, abstracting, and sorting by form and content deemed by NTIS to be responsive to customer demand. The result of this processing is the creation of a database of information that is used to prepare various products and services offered for sale to the public and to other federal agencies. Document registration, payroll, and computer input processing costs are capitalized as part of the database to reflect current additions and enhancements to the asset. Amortization is calculated using an accelerated method, which approximates anticipated sales volume.

Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as an advance to others or a prepaid charge, and recognized as expenditures/expenses when the goods and services are received.

continued

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by NTIS as the result of a transaction or event that has already occurred. All liabilities are covered by budgetary resources.

Accrued payroll and benefits reflect salaries and benefits earned but not paid as of year-end.

Customer deposits consist of cash that customers have remitted to fund future purchases of NTIS products and services.

Subscription escrow accounts are used to account for unearned revenue, or cash received prior to year-end, for subscription products to be shipped at a future date.

Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. This balance is fully funded.

Sick leave and other types of leave are expensed as taken and are considered non-vested.

Retirement Plans (CSRS and FERS)

NTIS does not report Civil Service Retirement System (CSRS) assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM). The employee withholding rate during FY 2004 was 7.00% and the matching agency contribution was 8.51%. CSRS employees can also participate in the Thrift Savings Plan but there are no agency matching contributions.

The FERS employee withholding rate for FY 2004 was 0.8% and the agency contribution rate was 10.7%

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. The FERS employee withholding rate for FY 2004 was 0.8% and the agency contribution rate was 10.7%. A primary feature of FERS is that it offers a savings plan (TSP) that automatically contributes 1% of pay and matches any employee contribution up to an additional 4% of pay.

For most employees hired since December 31, 1983, NTIS also contributes the employer's matching share for Social Security. Current payroll contributions for FERS employees are limited to 14% of basic pay per pay period and 9% for CSRS employees.

Pension and Other Retirement Benefits Accruals

Included in Personal Services & Benefits, in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, the NTIS recognized an imputed financing source and corresponding expense to represent its share of the cost to the Federal government of providing pension and post-retirement health and life insurance benefits to all eligible NTIS employees.

	<u>2004</u>	<u>2003</u>
	(\$ in Thousands)	
Civil Service Retirement System	\$ 508.4	\$ 348.8
Federal Employees Retirement System	27.9	28.9
Federal Employees Health Benefits	644.9	602.4
Federal Employees Group Life Insurance	<u>1.7</u>	<u>1.8</u>
Total	<u>\$1,182.9</u>	<u>\$ 981.9</u>

continued

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

Workers' Compensation – Future Workers' Compensation Benefits (Actuarial FECA Liability)

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's June 10, 1997 economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

<u>2004</u>	<u>2003</u>
4.88% in year 1,	3.84% in year 1,
5.24% in year 2,	4.35% in year 2,
and thereafter	and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections are as follows:

<u>FY</u>	<u>COLA</u>	<u>CPIM</u>
2005	2.03%	4.14%
2006	2.73%	3.96%
2007	2.40%	3.98%
2008	2.40%	3.99%
2009+	2.40%	4.02%

The model's resulting projections were analyzed to ensure that the amounts were reliable. The analysis was based on two tests; (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

Use of Estimates

The preparation of financial statements in conformity with the accounting principles described above requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates.

continued

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

Note 2. Fund Balances With Treasury:

	<u>FY2004</u>			<u>FY2003</u>		
A. Fund Balances:	Entity <u>Assets</u>	Non-Entity <u>Assets</u>	<u>Total</u>	Entity <u>Assets</u>	Non-Entity <u>Assets</u>	<u>Total</u>
Revolving Fund	\$ 15,931	\$ 15,765	\$ 31,696	\$ 16,049	\$ 22,301	\$ 38,350
Total Fund Balance	<u>\$ 15,931</u>	<u>\$ 15,765</u>	<u>\$ 31,696</u>	<u>\$ 16,049</u>	<u>\$ 22,301</u>	<u>\$ 38,350</u>

B. Status of Fund Balance with Treasury

Unobligated Balance		
Available	\$ 10,991	\$ 9,695
Obligated Balance not yet Disbursed	20,705	28,655
Total	<u>\$ 31,696</u>	<u>\$ 38,350</u>
Funds For Operations	\$ 15,931	\$ 16,049
Funds Owed To Agencies For Which NTIS		
Collects Receivables-Brokerage Services	4,048	4,819
Funds Owed To Customers For Deposit Funds	11,717	17,482
Total Fund Balance	<u>\$ 31,696</u>	<u>\$ 38,350</u>

Note 3: Cash, Foreign Currency and Other Monetary Assets:

	<u>FY2004</u>	<u>FY2003</u>
	Entity <u>Assets</u>	Entity <u>Assets</u>
Cash		
Undeposited Collections	\$ 33	\$ 58
	<u>\$ 33</u>	<u>\$ 58</u>

continued

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

Note 4. Accounts Receivable:

	<u>FY2004</u>		
	<u>Receivables</u>	<u>Allowance</u>	<u>Net</u>
Intragovernmental			
Accounts Receivable –Overdrawn Deposits	\$ 305	\$ -	\$ 305
Billed Accounts Receivable	<u>0</u>	<u>-</u>	<u>0</u>
	<u>\$ 305</u>	<u>\$ -</u>	<u>\$ 305</u>
 Governmental			
Accounts Receivable –Overdrawn Deposit Accounts	\$ 73	\$ (11)	\$ 62
Billed Accounts Receivable	388	(7)	381
Unbilled Accounts Receivable	<u>160</u>	<u>-</u>	<u>160</u>
	<u>\$ 621</u>	<u>\$ (18)</u>	<u>\$ 603</u>
	<u>621</u>	<u>(18)</u>	<u>603</u>
 FY 2004 Total	<u>\$ 926</u>	<u>\$ (18)</u>	<u>\$ 908</u>
	<u>FY2003</u>		
	<u>Receivables</u>	<u>Allowance</u>	<u>Net</u>
Intragovernmental			
Accounts Receivable –Overdrawn Deposits	\$ 54	\$ -	\$ 54
Billed Accounts Receivable	<u>20</u>	<u>-</u>	<u>20</u>
	<u>\$ 74</u>	<u>\$ -</u>	<u>\$ 74</u>
 Governmental			
Accounts Receivable –Overdrawn Deposit Accounts	\$ 148	\$ (15)	\$ 133
Billed Accounts Receivable	428	(8)	420
Unbilled Accounts Receivable	<u>128</u>	<u>-</u>	<u>128</u>
	<u>\$ 704</u>	<u>\$ (23)</u>	<u>\$ 681</u>
	<u>704</u>	<u>(23)</u>	<u>681</u>
 FY 2003 Total	<u>\$ 778</u>	<u>\$ (23)</u>	<u>\$ 755</u>

NTIS does not reserve for Intragovernmental and Unbilled receivables since they are considered fully collectible.

The Allowance for Bad Debts for Governmental (Public) is based on 83% of the total invoices with an invoice date of 120 days and older.

The Allowance for Bad Debts – Overdrawn Deposits for both Intragovernmental and Public is equal to 20% of the total overdrawn deposit account balances.

continued

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

Note 5. Advances and Prepayments:

	<u>FY2004</u>	<u>FY2003</u>
Other Entity Assets		
Intragovernmental		
Advances To Government Agencies	\$ <u>361</u>	\$ <u>378</u>
Public		
Advances To The Public	\$ <u>86</u>	\$ <u>47</u>

Note 6. Database

The database is the result of NTIS' acquisition and processing of scientific and technical information products. Processing includes cataloguing, indexing, abstracting, and sorting by form and content deemed by NTIS to be responsive to customer demand. The result of this processing is the creation of a database of information that is used to prepare various products and services offered for sale to the public and to other federal agencies.

The amortization method used for the database is the declining balance with 30% amortized the first year, 20% for the second year, and 10% over the remaining five years.

Registration, payroll, and computer input costs are capitalized as part of the database to reflect current additions and enhancements to the asset. Total costs added to the database in FY2004 were \$2.1 million.

The database consisted of the following:

	<u>FY2004</u>	<u>FY2003</u>
Capitalized Costs	\$ 46,070	\$ 43,941
Less: accumulated amortization	<u>(40,619)</u>	<u>(38,076)</u>
Total	<u>\$ 5,451</u>	<u>\$ 5,865</u>

For the year ended September 30, 2004 amortization expense was \$2.5 million.

continued

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

NOTE 7. Inventory and Related Property:

	<u>FY2004</u>		
	<u>Inventory Amount</u>	<u>Allowance for Losses</u>	<u>Inventory Net</u>
Inventory Categories:			
Inventory Held For Sale	\$ 453	\$ (247)	\$ 206
Inventory Not Held For Sale			
Material and Goods For Own			
Use - Print Plant Supply	42	-	42
Subtotal	42	-	42
Total	<u>\$ 495</u>	<u>\$ (247)</u>	<u>\$ 248</u>
	<u>FY2003</u>		
	<u>Inventory Amount</u>	<u>Allowance for Losses</u>	<u>Inventory Net</u>
Inventory Categories:			
Inventory Held For Sale	\$ 445	\$ (223)	\$ 222
Inventory Not Held For Sale			
Material and Goods For Own			
Use - Print Plant Supply	45	-	45
Subtotal	45	-	45
Total	<u>\$ 490</u>	<u>\$ (223)</u>	<u>\$ 267</u>

At September 30, 2004, inventory held for sale consisted of copies of scientific and technical reports and products in the gross amount of \$453 thousand.

Inventory Obsolescence is based on historical sales data and the actual inventory that is obsolete at the end of the reporting period.

Material and Goods for Own Use - Supply Inventory represents stockroom office supplies held for future distribution and consumption by NTIS offices. The valuation method used is First In - First Out (FIFO).

continued

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

NOTE 8. Property, Plant and Equipment, Net:

FY2004

Fixed Assets

	Balance FY03	Purchases FY04	Reclass FY04	Disposals FY04	Balance FY04
Equipment	\$ 2,112	\$ 85	\$ -	\$ (95)	\$ 2,102
Equipment Modernization	2,406	-	-	(861)	1,545
Print Plant Equipment	219	-	-	(13)	206
	<u>\$ 4,737</u>	<u>\$ 85</u>	<u>\$ -</u>	<u>\$ (969)</u>	<u>\$ 3,853</u>

Accumulated Depreciation

	Balance FY03	Depreciation FY04	Reclass FY04	Disposals FY04	Balance FY04	Net Book Value	Depreciation Method*	Service Life**
Equipment	\$ 1,707	\$ 273	\$ -	\$ (95)	\$ 1,885	\$ 217	SL	2-5
Equipment Modernization	2,406	-	-	(861)	1,545	-	SL	2-5
Print Plant Equipment	219	-	-	(13)	206	-	SL	2-5
	<u>\$ 4,332</u>	<u>\$ 273</u>	<u>\$ -</u>	<u>\$ (969)</u>	<u>\$ 3,636</u>	<u>\$ 217</u>		

* Depreciation Method

SL=Straight Line

** Range of Service Life:

2-5= 2 to 5 years

FY2003

Fixed Assets

	Balance FY02	Purchases FY03	Reclass FY03	Disposals FY03	Balance FY03
Equipment	\$ 1,945	\$ 245	\$ -	\$ (78)	\$ 2,112
Equipment Modernization	2,489	-	-	(83)	2,406
Print Plant Equipment	219	-	-	-	219
	<u>\$ 4,653</u>	<u>\$ 245</u>	<u>\$ -</u>	<u>\$ (161)</u>	<u>\$ 4,737</u>

Accumulated Depreciation

	Balance FY02	Depreciation FY03	Reclass FY03	Disposals FY03	Balance FY03	Net Book Value	Depreciation Method*	Service Life**
Equipment	\$ 1,503	\$ 282	\$ -	\$ (78)	\$ 1,707	\$ 405	SL	2-5
Equipment Modernization	2,489	-	-	(83)	2,406	-	SL	2-5
Print Plant Equipment	219	-	-	-	219	-	SL	2-5
	<u>\$ 4,211</u>	<u>\$ 282</u>	<u>\$ -</u>	<u>\$ (161)</u>	<u>\$ 4,332</u>	<u>\$ 405</u>		

* Depreciation Method

SL=Straight Line

** Range of Service Life:

2-5= 2 to 5 years

continued

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

NOTE 9. Accounts Payable:

As of September 30, 2004, accounts payable consisted of the following:

	<u>Intragovernmental</u>	<u>Public</u>	<u>Total</u>
Accounts Payable, Operations	\$ 275	\$ 1,463	\$ 1,738
Accounts Payable, Brokerage	4,045	3	4,048
Total	<u>\$ 4,320</u>	<u>\$ 1,466</u>	<u>\$ 5,786</u>

Of the intragovernmental accounts payable, approximately \$4.0 million represents amounts due under reimbursable agreements with the National Library of Medicine (NLM) for the year ended September 30, 2004 and related brokerage services (billing, collection, and financial management services) rendered.

As of September 30, 2003, accounts payable consisted of the following:

	<u>Intragovernmental</u>	<u>Public</u>	<u>Total</u>
Accounts Payable, Operations	\$ 1,022	\$ 1,618	\$ 2,640
Accounts Payable, Brokerage	4,816	3	4,819
Total	<u>\$ 5,838</u>	<u>\$ 1,621</u>	<u>\$ 7,459</u>

Of the intragovernmental accounts payable, approximately \$4.6 million represents amounts due under reimbursable agreements with the National Library of Medicine (NLM) for the year ended September 30, 2003 and related brokerage services (billing, collection, and financial management services) rendered.

NOTE 10. Commitments and Contingencies

Future Commitments

NTIS is committed to purchase goods and services ordered, but not yet received (undelivered orders) amounting to \$13.2 million and \$19.3 million as of September 30, 2004 and 2003, respectively.

The land and buildings in which NTIS operates are provided through the General Services Administration's building delegation fund, and NTIS is charged rent intended to approximate commercial rental rates. Rent expense charged for office space for the years ended September 30, 2004 and 2003 was \$1.4 million and \$1.4 million, respectively.

Future Minimum Lease Payments Due:

Cancelable Operating Leases

	Total Building (In Thousands)
Fiscal Year 2005	\$ 1,479
Fiscal Year 2006	1,480
Fiscal Year 2007	1,481
Fiscal Year 2008	1,482
Total Future Minimum Lease Payments	<u>\$ 5,922</u>

continued

National Technical Information Service
Notes to Financial Statements
(\$ in thousands)
September 30, 2004 and 2003

NOTE 10. Commitments and Contingencies (continued)

Pending Claims

To the best of management's and the Department of Commerce's Office of General Counsel's knowledge, information and belief, there are no pending claims or threatened litigation, claims, or assessments or unasserted claims or adjustments that might have a material impact on the financial position of NTIS.

Apportionment Categories of Obligations Incurred

NTIS had Reimbursable Obligations for the years ended September 30, 2004 and 2003 in the amount of \$19.2 million and \$27.5 million, respectively.

NOTE 11. Gross Costs and Earned Revenue By Budget Functional Classification

NTIS' gross costs and earned revenues by budget functional classification are all included in the collect and disseminate technical information classification.

Collect and Disseminate Technical Information	<u>FY2004</u>	<u>FY2003</u>
Gross Cost	\$ 27,008	\$ 29,293
Earned Revenue	<u>(26,333)</u>	<u>(28,321)</u>
Net Cost	<u>\$ 675</u>	<u>\$ 972</u>

IV. Required Supplemental Information #1
Fiscal Year 2004
Years Ended September 30, 2004 and 2003
(\$ in thousands)

	Year ended September 30, 2004		Year ended September 30, 2003	
	<u>Revenue</u>			
Clearinghouse Program	\$26,333	96%	\$28,321	97%
Other Reported Items	<u>1,183</u>	4%	<u>982</u>	3%
TOTAL, NTIS REVENUE:	<u>\$27,516</u>	100%	<u>\$29,303</u>	100%
	<u>Cost</u>			
Clearinghouse Program	\$25,825	96%	\$28,311	97%
Other Reported Items	<u>1,183</u>	4%	<u>982</u>	3%
TOTAL, NTIS COST:	<u>\$27,008</u>	100%	<u>\$29,293</u>	100%
	<u>Net</u>			
Clearinghouse Program	\$508	100%	\$10	100%
Other Reported Items	<u>0</u>	0%	<u>0</u>	0%
TOTAL, NTIS	<u>\$508</u>	100%	<u>\$10</u>	100%

NOTE: The Statement of Net Cost, included in the financial statements, excludes revenue for FY 2004/FY 2003 (\$1,183K/\$982K) from an imputed financing source related to the cost of providing pension and other retirement benefits (refer to Note 1 to the Financial Statements for additional detail to this financing source). This revenue is included in "Other Reported Items" on the Statement of Changes in Net Position.

IV. Required Supplemental Information #2
Years Ended September 30, 2004 and 2003
(\$ in thousands)

	Year ended September 30, 2004			Year ended September 30, 2003		
	<u>Revenue</u>	<u>Cost</u>	<u>Income/ (Loss)</u>	<u>Revenue</u>	<u>Cost</u>	<u>Income/ (Loss)</u>
<u>Clearinghouse Program</u>						
Announcement Products	\$966	\$3,329	(\$2,363)	\$1,210	\$3,193	(\$1,983)
Full Text Reports	2,868	3,649	(781)	3,387	4,609	(1,222)
Computer Products	5,104	4,230	874	5,228	4,559	669
Standing Order Products	1,186	897	289	2,060	1,346	714
Paper Subscriptions	438	730	(292)	511	839	(328)
Electronic Subscriptions	2,886	1,965	921	3,306	2,537	769
Miscellaneous Products	980	944	36	993	1,287	(294)
Clearinghouse Services	<u>11,905</u>	<u>10,081</u>	<u>1,824</u>	<u>11,626</u>	<u>9,941</u>	<u>1,685</u>
Subtotal Clearinghouse Program:	\$26,333	\$25,825	\$508	\$28,321	\$28,311	\$10
<u>Other Reported Items</u>						
Other Reported Items	<u>\$1,183</u>	<u>\$1,183</u>	<u>\$0</u>	<u>\$982</u>	<u>\$982</u>	<u>\$0</u>
Total NTIS:	\$27,516	\$27,008	\$508	\$29,303	\$29,293	\$10

NOTE: The Statement of Net Cost, included in the financial statements, excludes revenue for FY 2004/FY 2003 (\$1,183K/\$982K) from an imputed financing source related to the cost of providing pension and other retirement benefits (refer to Note 1 to the Financial Statements for additional detail to this financing source). This revenue is included in "Other Reported Items" on the Statement of Changes in Net Position.

VI. Required Supplemental Information #3
Years Ended September 30, 2004 and 2003
(\$ in thousands)

Intra-governmental assets:

Trading Partner		FY 2004				FY 2003
		Fund Balance With Treasury	Accounts Receivable, Net	Advances and Prepayments	Total	Total
3	Library of Congress	\$ -	\$ 1	\$ 5	\$ 6	\$ 8
4	Government Printing Office	-	-	1	1	1
12	Department of Agriculture	-	4	-	4	-
13	Department of Commerce	-	5	275	280	250
14	Department of Interior	-	-	-	-	13
16	Department of Labor	-	19	-	19	-
18	United States Postal	-	-	78	78	121
20	Department of Treasury	31,696	6	-	31,702	38,351
21	Department of the Army	-	1	-	1	2
24	OPM	-	-	2	2	-
36	Department of Veterans Affairs	-	-	-	-	1
47	General Services Administration	-	223	-	223	1
75	Department of Health and Human Services	-	46	-	46	-
96	US Army Corps of Engineers	-	-	-	-	20
97	Secretary of Defense	-	-	-	-	33
TOTAL		<u>\$ 31,696</u>	<u>\$ 305</u>	<u>\$ 361</u>	<u>\$ 32,362</u>	<u>\$ 38,801</u>

VI. Required Supplemental Information #4
Years Ended September 30, 2004 and 2003
(\$ in thousands)

Intra-governmental liabilities:		FY 2004				FY 2003
		Accounts Payable	Other Intragovernmental Liabilities	Customer Deposits	Total	Total
Trading Partner						
1	Architect of the Capitol	\$ -	\$ -	\$ -	\$ -	\$ (1)
3	Library of Congress	-	-	-	-	(35)
4	Government Printing Office	(133)	-	-	(133)	(101)
8	Congressional Budget Office	-	-	(1)	(1)	(1)
11	Exec Off of the President	-	-	(28)	(28)	(28)
12	Department of Agriculture	(7)	-	(1,283)	(1,290)	(1,523)
13	Department of Commerce	(53)	-	(216)	(269)	(519)
14	Department of Interior	-	-	(23)	(23)	(64)
15	Department of Justice	-	-	(15)	(15)	(18)
16	Department of Labor	(2)	(79)	(156)	(237)	(264)
17	Department of Navy	-	-	(1,410)	(1,410)	(1,886)
18	United States Postal	(0)	-	-	(0)	(1)
19	Department of State	-	-	-	-	(20)
20	Department of Treasury	(1)	(5)	(2,173)	(2,179)	(2,994)
21	Department of the Army	(32)	-	(393)	(425)	(493)
24	OPM	(1)	(56)	(33)	(90)	(79)
28	Social Security Administration	(10)	-	(551)	(561)	(867)
31	Nuclear Regulatory Commission	-	-	(50)	(50)	(47)
33	Smithsonian	-	-	(1)	(1)	(2)
36	Department of Veterans Affairs	-	-	(87)	(87)	(74)
47	General Services Administration	(26)	-	(16)	(42)	(686)
49	National Science Foundation	-	-	(1)	(1)	(1)
56	Central Intelligence Agency	(41)	-	(190)	(231)	(413)
57	Department of Air Force	-	-	(456)	(456)	(325)
58	FEMA	-	-	-	-	(11)
61	Consumer Product Safety Comm	-	-	-	-	(2)
68	Environmental Protection Agency	(4)	-	(515)	(519)	(662)
69	Department of Transportation	-	-	(106)	(106)	(172)
70	Homeland Security	-	-	(12)	(12)	(7)
71	Overseas Private Investment	-	-	(1)	(1)	(1)
72	AID	-	-	(5)	(5)	(5)
73	Small Business Administration	-	-	-	-	(1)
75	Department of Health and Human Services	(4,006)	-	(1,544)	(5,550)	(9,484)
80	NASA	-	-	(47)	(47)	(47)
86	HUD	-	-	(131)	(131)	(187)
89	Department of Energy	-	-	(38)	(38)	(43)
91	Department of Education	-	-	(139)	(139)	(139)
95	Board of Governors	-	-	-	-	(5)
95	USIA	(4)	-	(37)	(41)	(41)
96	US Army Corps of Engineers	-	-	(28)	(28)	(36)
97	Secretary of Defense	-	-	(690)	(690)	(444)
99	Treasury General Fund	-	(13)	-	(13)	(9)
		<u>\$ (4,320)</u>	<u>\$ (153)</u>	<u>\$ (10,376)</u>	<u>\$ (14,849)</u>	<u>\$ (21,738)</u>

